

**SHENANDOAH AMBULANCE SERVICE**

**INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

# SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE  
Members  
December 31, 2010

Board Members

Location

Kurt Henstorf, Chairman	Shenandoah, Iowa
Dick Hunt	Shenandoah, Iowa
Bob Burchett	Shenandoah, Iowa
Rod Nester	Shenandoah, Iowa
Craig Harris	Shenandoah, Iowa
Susan McGough	Shenandoah, Iowa
Dr. Floyd Jones	Shenandoah, Iowa

Committee Members

Sandy Chesshire	CFO, Shenandoah Medical Center
John Baxter	EMS Director, Shenandoah Medical Center
Bob Norris	Attorney

Members

Shenandoah Medical Center  
City of Shenandoah, Iowa

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Shenandoah Ambulance Service

We have audited the accompanying balance sheets of Shenandoah Ambulance Service (a 28E Organization) as of December 31, 2010 and 2009 and the related statements of operations and changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the members. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Ambulance Service as of December 31, 2010 and 2009 and the results of its operations, changes in members' equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Organization has not presented Management's Discussion and Analysis or a Budgetary Comparison that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated April 26, 2011 on our consideration of Shenandoah Ambulance Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

*Gronewold, Bell, Kyhnn & Co. P.C.*

Atlantic, Iowa  
April 26, 2011

SHENANDOAH AMBULANCE SERVICE  
Balance Sheets  
December 31,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 122,952	\$ 156,353
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$77,000 in 2010, \$80,500 in 2009)	49,045	51,597
Prepaid expenses	<u>2,848</u>	<u>3,213</u>
Total current assets	174,845	211,163
Assets Limited as to Use:		
Board designated funds	174,688	72,251
Equipment	306,559	300,594
Less accumulated depreciation	<u>218,310</u>	<u>168,369</u>
	<u>88,249</u>	<u>132,225</u>
Total assets	<u>\$ 437,782</u>	<u>\$ 415,639</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 4,534	\$ 5,278
Due to member	<u>38,755</u>	<u>38,534</u>
Total current liabilities	43,289	43,812
Members' Equity:		
Invested in capital assets, net of related debt	88,249	132,225
Unrestricted	<u>306,244</u>	<u>239,602</u>
Total members' equity	<u>394,493</u>	<u>371,827</u>
Total liabilities and members' equity	<u>\$ 437,782</u>	<u>\$ 415,639</u>

The accompanying notes are an integral part of these statements.

**SHENANDOAH AMBULANCE SERVICE**  
**Statements of Operations and Changes in Members' Equity**  
**Year ended December 31,**

	<u>2010</u>	<u>2009</u>
Revenues:		
Ambulance service	\$ 1,096,746	\$ 1,073,197
Subsidies	65,950	65,950
Other	1,486	7,568
	<u>1,164,182</u>	<u>1,146,715</u>
Contractual and administrative adjustments	( 484,999)	( 459,250)
Charity care	( 10,834)	( 5,895)
Provision for bad debts	<u>( 53,716)</u>	<u>( 55,561)</u>
Net revenues	614,633	626,009
Operating Expenses:		
Contract labor	478,256	436,448
Laundry purchased services	426	581
Rent	25,175	27,987
Depreciation	49,941	51,661
Gas and oil	17,512	13,580
Education and travel	56	265
Insurance	16,307	16,849
Advertising	500	532
Legal and accounting	18,971	18,978
Collection fees	613	786
Licenses and fees	430	475
Repairs and maintenance	8,456	17,211
Medical supplies	3,454	3,833
Minor equipment	2,734	5,013
Supplies	8,159	10,018
Bank charges	629	955
Telephone	569	989
Medical director	<u>3,600</u>	<u>3,600</u>
Total operating expenses	<u>635,788</u>	<u>609,761</u>
Operating Income (Loss)	( 21,155)	16,248
Non-Operating Income:		
Investment income	1,928	1,223
Grants and donations	<u>41,893</u>	<u>34,798</u>
Total non-operating income	<u>43,821</u>	<u>36,021</u>
Excess of Revenues Over Expenses	22,666	52,269
Members' Equity, Beginning of Year	<u>371,827</u>	<u>319,558</u>
Members' Equity, End of Year	<u>\$ 394,493</u>	<u>\$ 371,827</u>

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE  
Statements of Cash Flows  
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 617,185	\$ 644,669
Cash paid to suppliers	<u>( 555,730)</u>	<u>( 524,939)</u>
Net cash provided by operating activities	61,455	119,730
Cash flows from non-capital financing activities:		
Donations	200	3,210
Cash flows from capital and related financing activities:		
Capital expenditures	( 5,965)	( 114,573)
Capital grants received	<u>11,418</u>	<u>--</u>
Net cash provided by (used in) capital and related financing activities	5,453	( 114,573)
Cash flows from investing activities:		
Investment income	<u>1,928</u>	<u>1,223</u>
Net increase in cash	69,036	9,590
Cash, beginning of year	<u>228,604</u>	<u>219,014</u>
Cash, end of year	<u><u>\$ 297,640</u></u>	<u><u>\$ 228,604</u></u>
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 122,952	\$ 156,353
Cash in assets limited as to use	<u>174,688</u>	<u>72,251</u>
Total cash	<u><u>\$ 297,640</u></u>	<u><u>\$ 228,604</u></u>

(continued next page)

SHENANDOAH AMBULANCE SERVICE  
Statements of Cash Flows - Continued  
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$( 21,155)	\$ 16,248
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	49,941	51,661
Donated expenses	30,275	31,588
Changes in assets and liabilities		
Accounts receivable	2,552	18,660
Prepaid expenses	365	17
Accounts payable	( 744)	695
Due to member	221	861
Total adjustments	<u>82,610</u>	<u>103,482</u>
Net cash provided by operating activities	<u>\$ 61,455</u>	<u>\$ 119,730</u>

The accompanying notes are an integral part of these statements.



## SHENANDOAH AMBULANCE SERVICE

### Notes to Financial Statements

December 31, 2010 and 2009

#### NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 1. Reporting Entity

Shenandoah Ambulance Service was formed in 2001 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to provide ambulance services to the Shenandoah service area.

The governing body of the Organization is composed of three representatives from each of the two participating entities and one representative from the Shenandoah service area. The participating entities are Shenandoah Medical Center and the City of Shenandoah, Iowa. Each participating entity owns an equal share in the organization.

##### 2. Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

##### 3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### 4. Assets Limited as to Use

Assets whose use is limited include assets set aside by the Board of Directors for capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

##### 5. Equipment

Equipment acquisitions with a cost in excess of \$500 and estimated useful life in excess of three years are recorded at cost. Depreciation is provided over the estimated useful life (ranging from three to ten years) of each class of depreciable asset and is computed on the straight-line method.

SHENANDOAH AMBULANCE SERVICE  
Notes to Financial Statements  
December 31, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

6. Cash and Cash Equivalents

Cash and cash equivalents includes investments in highly liquid debt instruments with a maturity of three months or less.

7. Operating Revenues and Expenses

The Organization's statement of operations and changes in members' equity distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing ambulance services - the Organization's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses include all expenses incurred to provide ambulance services, other than financing costs.

8. Ambulance Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments.

9. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

10. Members' Equity

Members' equity of the Organization is classified in three components. *Members' equity invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted Members' equity* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Organization. *Unrestricted Members' Equity* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

SHENANDOAH AMBULANCE SERVICE  
Notes to Financial Statements  
December 31, 2010 and 2009

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Ambulance services rendered to Medicare and Medicaid program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined daily rates.

NOTE C - DEPOSITS

The composition of assets limited as to use at December 31 is set forth below.

	<u>2010</u>	<u>2009</u>
Board Designated Funds:		
For Capital Improvements:		
Cash	\$ <u>174,688</u>	\$ <u>72,251</u>

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2010 and 2009 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Equipment Cost	\$ 300,594	\$ 5,965	\$ --	\$ 306,559
Depreciation	<u>168,369</u>	<u>49,941</u>	<u>--</u>	<u>218,310</u>
Equipment, Net	<u>\$ 132,225</u>	<u>\$( 43,976)</u>	<u>\$ --</u>	<u>\$ 88,249</u>

# SHENANDOAH AMBULANCE SERVICE

## Notes to Financial Statements

December 31, 2010 and 2009

### NOTE D - CAPITAL ASSETS - Continued

	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Equipment Cost	\$ 186,021	\$ 114,573	\$ --	\$ 300,594
Depreciation	<u>116,708</u>	<u>51,661</u>	<u>--</u>	<u>168,369</u>
Equipment, Net	<u>\$ 69,313</u>	<u>\$ 62,912</u>	<u>\$ --</u>	<u>\$ 132,225</u>

### NOTE E - RELATED ORGANIZATIONS

Shenandoah Ambulance Service is a joint venture of Shenandoah Medical Center (Hospital) and the City of Shenandoah (City). Under the terms of the agreement, the City will provide an annual subsidy, and one ambulance and related equipment to the Organization. The Hospital will provide equipment, space and facilities necessary to house the ambulance, receive dispatch calls, and perform all administrative, recordkeeping and billing services required. The Organization has contracted with the Hospital to purchase personnel, employee benefits and supplies necessary to provide ambulance services. Below is a list of amounts due to or from Shenandoah Ambulance Service by the members at year end and the transactions between the Organization and Members during the year ended:

<u>December 31, 2010</u>	<u>City</u>	<u>Hospital</u>
Due to Member	\$ --	\$ 38,755
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	498,949
Value of donated services and equipment	22,175	6,600
<u>December 31, 2009</u>		
Due to Member	\$ --	\$ 38,534
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	460,387
Value of donated services and equipment	24,988	6,600

SHENANDOAH AMBULANCE SERVICE  
Notes to Financial Statements  
December 31, 2010 and 2009

NOTE F - CONTINGENCIES

Risk Management

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided through liability insurance contracts of each of the individual members. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Shenandoah Ambulance Service is exposed to various other common business risks for which it is covered by commercial insurance of the individual members. Settled claims from these risks have not exceeded insurance coverage during the entity's existence.

Off-Balance Sheet Risk

The Organization maintains its deposits at one bank in the area. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposit limits for one entity (by approximately \$47,000 in total at year end). Management of the Organization has received no indication of any potential viability problems with this bank by the date of this report.

Subsequent Events

The Organization has evaluated all subsequent events through April 26, 2011, the date the financial statements were available to be issued.

NOTE G - CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	33%	28%
Medicaid	10	12
Blue Cross	8	14
Other third-party payors	31	24
Patients	<u>18</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

\* \* \*

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Directors  
Shenandoah Ambulance Service  
Shenandoah, Iowa

We have audited the financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2010, and have issued our report thereon dated April 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shenandoah Ambulance Service's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Shenandoah Ambulance Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors  
Shenandoah Ambulance Service

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shenandoah Ambulance Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Shenandoah Ambulance Service's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Organization's response, we did not audit the Organization's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Shenandoah Ambulance Service and other parties to whom the Organization may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Garnett, Ben, Kynan & Co. P.C.*

Atlantic, Iowa  
April 26, 2011



SHENANDOAH AMBULANCE SERVICE  
Schedule of Findings  
Year ended December 31, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Organization. However, this deficiency is common among small organizations.

Recommendation: We recognize that it may not be economically feasible for the Organization to employ or contract for additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The members are aware of this lack of segregation of duties, but it is not economically feasible for the Organization to employ or contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*